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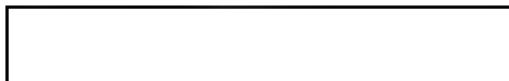


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*SYRIA-ISRAEL: Fighting broke out on the Golan Heights front yesterday. Israeli and Syrian forces exchanged tank and artillery fire during the day on the northeastern edge of the Israeli salient into Syria. The fighting, which began in the early morning hours, apparently ended by afternoon.

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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*SYRIA: Syrian President Asad, in a speech yesterday marking the 11th anniversary of the Baath Party's seizure of power, implied Syria will continue to seek a military disengagement with Israel in the Golan Heights.

Although Asad said Syria will continue to maintain a state of war with Israel until all occupied land is liberated, he also said the struggle has entered a political phase.

Speaking one day after the departure of Soviet Foreign Minister Gromyko, Asad stated Syria will not have its decisions dictated by anyone, including the decision "to be absent where we should be absent and to be present where we should be present." He may have been reacting to Soviet pressure to participate in the Geneva talks and, perhaps, to reported urgings by Gromyko to insist that the disengagement talks be held in Geneva instead of Washington. [REDACTED]

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*ARGENTINA: President Peron has gained congressional approval for improving federal control over Cordoba Province, but basic problems remain that may lead to renewed disturbances in the troubled industrial center.

Congressional action came after heated debate on the government's decision to take over the provincial executive following a police revolt against Cordoba's governing officials last week. Peron apparently won the necessary two-thirds vote for the measure by making a deal with opposition political leaders. The ousted governor and his deputy have been allowed to resign "with honor," and Peron may have promised to consult with opposition legislators before naming a federal administrator for Cordoba.

Meanwhile, sporadic violence continues in the provincial capital, where leftists remain bitter over what they see as the high-handed maneuvering of Peron and his conservative entourage in Buenos Aires to engineer the removal of left-wing government and labor leaders.

The situation remains tense, and there is no assurance that Peron will win an easy--or peaceful--victory over his adversaries. Indeed, there are indications that the government's performance so far may have soured moderate leftist Peronists and eroded the President's reputation as the consummate politician. Such disillusionment will only strain the already badly split Peronist movement and aggravate Peron's domestic difficulties. [REDACTED]

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EGYPT: President Sadat will reorganize his cabinet within the next three weeks, according to Ali Amin, the recently appointed editor of the semi-official Cairo daily Al-Ahram. The reorganization, postponed from January, would formalize a program of reconstruction and domestic reform that has accelerated in the last month.

Amin wrote on March 7 that Sadat probably will also streamline the cabinet's operations by reducing the number of ministers, more clearly defining their tasks, and providing for a more efficient delegation of authority within the ministries.

Amin mentioned no names and gave no indication of whether Sadat himself would relinquish the prime ministership, a post he has held along with the presidency for the last year. Amin, in an article of a few weeks ago, had predicted that Sadat would retain the post "until the last Israeli soldier has left the territory of the homeland."

When a cabinet change was first rumored in January, Finance Minister Hijazi was mentioned as the most likely candidate for the prime ministership. Sadat, however, postponed the reorganization, apparently because he feared it would give the impression he was concentrating too heavily on domestic affairs before the struggle with Israel had been resolved. There are also indications that the Soviets, who oppose the economic liberalization measures Hijazi authored, may have objected to his appointment.

The liberalization and reconstruction program, nonetheless, has gone forward, and Sadat may now have decided to proceed with the cabinet reshuffle, making nominal accommodations to the objections of those who have opposed it. He could, for instance, retain the prime ministership himself and claim that the government is equally ready for war and for domestic reconstruction; he originally assumed the post in a move to facilitate preparations for war. Remaining in the office would also avoid some of the problems Hijazi's appointment would almost certainly precipitate. The Finance Minister, however, will probably stay on and continue to be heavily involved in reconstruction and economic reform. [REDACTED]

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ETHIOPIA: Government and trade union representatives reached a proposed agreement yesterday to end a two-day general strike. Union leaders are scheduled to meet this morning to study the agreement, which must be approved by both the labor confederation's general council and Prime Minister Endalkatchew. Until then, a union spokesman says, the workers will remain off their jobs. The negotiators revealed no details of the agreement but described it as a compromise solution. The secretary general of the Ethiopian Labor Confederation said there was "a meeting of minds on all points."

The settlement, if approved, would remove one of the direct threats to the government, but continuing unrest among other dissatisfied groups will prevent an early return of stability. Teachers are still on strike because of grievances over pay and proposed educational policies they believe will limit educational opportunities for large numbers of Ethiopians. Students and some elements in the military continue to oppose Endalkatchew, who they believe has not accepted their goal of far-reaching political and social reform.

The government has attempted to demonstrate a willingness to search for constructive answers to the demands of the dissidents. The US Embassy reports, however, that cabinet members are deeply concerned over their precarious situation and believe that the country remains hostage to various militant groups.

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FRANCE: In line with its stated objective of eliminating by the end of 1975 the trade deficit resulting from higher oil prices, Paris reportedly will soon announce measures designed to boost exports. The government may also encourage exporters to devote special efforts to promoting sales in the areas least affected by the oil crisis, in particular North America and Eastern Europe.

Measures under consideration include aid to firms that increase investment in order to export more. Such aid might come in the form of exemption from borrowing limits or accelerated depreciation allowances, possibly conditional on a firm's formal commitment to export a given share of its output. Paris is also apparently studying a package of measures that would facilitate the export of complete plants. Other possible steps include improvements in guarantees designed to reduce exchange-rate and political risks. The action most desired by exporters--preferential interest rates on export financing--appears less likely to materialize, because steps in this direction would probably violate GATT and EC rules.

Whatever Paris decides, there is likely to be little effect on the trade balance this year. Short-term expansion of exports in most sectors of French industry will be hampered by a lack of excess production capacity and by the weakening of demand in the economies of France's main trading partners. Although action begun now could narrow the trade deficit next year, balanced trade by the end of 1975 seems unlikely. [REDACTED]

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[REDACTED]

CAMBODIA: Press reports about the defection of some 700 Khmer Communist troops appear to be false. Cambodian Army officers involved with the government's rallier program are convinced that most of the ralliers presented to the press last week were Phnom Penh residents paid to pose as Communists. According to the US Embassy in Phnom Penh, the group of civilian government officials who presented the alleged ralliers to the press last week has since December been promoting a scheme that ultimately was supposed to lead to the defection of 25,000 insurgents.

Stories of mass insurgent defections during the war are not new. Prominent figures such as former prime minister In Tam and High Political Council member Cheng Heng claimed in the past to have large numbers of insurgent troops ready to rally. They promoted such stories in part to demonstrate their personal ability to influence the insurgents. Other officials have used the rallier ploy to improve their financial and bureaucratic positions.

Money appears to be a motive in this latest episode. The civilian officials who have been "negotiating" with the ralliers have already gone through substantial funds provided personally by President Lon Nol, and they are seeking to have their new charges placed on army payrolls.

[REDACTED]

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SOUTH VIETNAM: There is growing evidence that President Thieu has reduced the authority of two controversial advisers as part of his recent reorganization of the executive branch. Such a move will mollify senior military figures who have complained of meddling by the two men.

Hoang Duc Nha, who was Thieu's closest aide, was moved out of the presidential office and appointed minister of information and Chieu Hoi (the rallier program) last month. Nguyen Van Ngan remains in Thieu's office, but his present duties are not clear because part of Ngan's responsibilities reportedly have been transferred to Prime Minister Khiem's office.

A power struggle between Nha and Ngan broke into the open last fall. [REDACTED]

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Nha and Ngan clearly have lost some ground, but new power relationships at the presidential palace have not yet been firmly defined. Nha probably still has some access to Thieu, particularly since he is closely related to the President, and Khiem remains concerned about Nha's activities. [REDACTED]

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SOUTH VIETNAM: Economy, a Threat to Thieu

South Vietnam's economy has been in a slump for almost two years, and the outlook is for more of the same for the remainder of 1974. Economic problems now pose the greatest threat to President Thieu's otherwise strong domestic position, and continued deterioration will increase the risk of political instability.

Thieu recognizes the gravity of the situation and has made a number of changes in economic policy-making positions in recent months. Cabinet ministers who favored reliance on free market forces have been replaced and the government is leaning toward more direct controls, but no clear-cut economic policies have emerged. Saigon possesses only limited financial or administrative tools to deal with short-term problems.

Thieu also realizes that global inflation and economic stagnation have increased South Vietnam's need for foreign aid. His recent moves to improve government efficiency and crack down on corruption have been designed, in part, to improve Saigon's image overseas, in hope of attracting additional aid from the US and other countries.

South Vietnam's economic problems--declining real aid, stagnation in industrial production, rapid inflation, and the sharp reduction in US spending--have affected urban areas and persons on fixed incomes most of all. Retail prices went up 65 percent during 1973 and have risen another 15 percent so far this year. Wages generally are failing to keep pace with the rising cost of living. This is particularly true of government employees, both civilian and military, who account for more than one fifth of the labor force. Despite a 25-percent pay hike last year, the real wages of government employees are only two thirds of what they were a year ago.

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The regular salaries of lower level employees--including a series of special allowances and commissary privileges--now barely cover a family's spending on rice. Moonlighting and the employment of more than one family member help, but jobs are scarce. In addition to lay-offs by Vietnamese manufacturers, US official interests, which at their peak in 1969 directly employed some 150,000, are reducing the number of jobs for South Vietnamese. Unemployment is on the increase; precise data are not available, but a recent study by the US Embassy in Saigon estimates that unemployment may now be on the order of 1 million people--some 15 percent of the labor force.

Agriculture

Agriculture is now relatively strong, having recovered from a disappointing year in 1972. Real incomes on the farms have apparently increased somewhat over the past few years, and preliminary indications point to a record rice crop now being harvested.

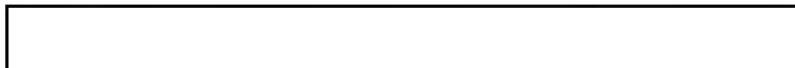
This performance is unlikely to be sustained. Recent increases in rice production have been due almost entirely to increased use of high-yield varieties, more intensive use of chemical fertilizers, and increased mechanization. Now, fertilizer is scarce and fuels are expensive. The retail price of fertilizer has more than doubled in the past year and gasoline is up more than 200 percent. Some farmers reportedly are reverting to other varieties of rice that, while hardier and less dependent on fertilizers and the vagaries of weather, are also lower yielding.

Thus, while farmers will probably still be able to meet their own needs, private merchants or government buyers may find it increasingly difficult to purchase rice in the delta for shipment to Saigon and the rice-deficit provinces farther north. Higher prices for farmers should eventually lead to increased supply; prices were nearly doubled last year. Further price increases, however, could not

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be absorbed by most low-income urban families. Should the government subsidize rice sales, this would further strain a budget already in deficit. To ensure adequate rice supplies, the embassy has requested 450,000 tons of rice under PL-480 this year, up from 300,000 tons in 1973.

Foreign Trade

World prices for the goods purchased abroad by South Vietnam rose last year by an average of 25 percent. For the same volume of imports this year, including the major ones--fertilizer, rice, wheat, and petroleum products--Saigon would have to pay well over \$900 million. Although South Vietnamese exports have increased, they are expected to bring less than \$100 million in 1974.

The US Embassy believes that South Vietnam will need supplemental aid this year of \$250 million in addition to the \$500 million the US has provided annually over the past few years to get the economy moving again. Saigon's major source of foreign exchange other than foreign aid has been US spending in South Vietnam and this has dropped sharply from a peak of \$400 million in 1971 to about \$130 million last year.

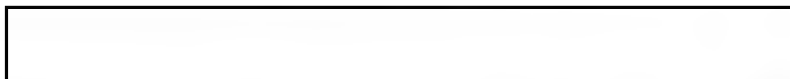
Aid from countries other than the US, primarily Japan and France, will probably increase, but over the short term this will meet only a small portion of Vietnam's aid and import requirements. Aid from these sources will probably double this year, but even so it is likely to total somewhat less than \$100 million.

At currently anticipated levels of foreign aid, the economic outlook for 1974 is similar to that of 1973--low domestic and foreign investment, little or no growth in production, widening inequalities in income, growing unemployment, and continued deferral of reconstruction and development. Each

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increase in consumer prices that is not accompanied by a gain in income for the working classes is likely to increase the prospects for political unrest, which has been virtually nonexistent within the non-Communist majority in recent years.

There have been reports of economic hardship and concern within some South Vietnamese military units, but instances of increased desertions or disciplinary problems are few and localized. Nor is there much open complaining in antigovernment circles. Buddhist and student groups, which led demonstrations against Thieu in the past, are now weak and badly divided, and they show little inclination to challenge Thieu openly. A few small radical groups have tried to exploit the economic situation, but thus far have not attracted any significant mass support.

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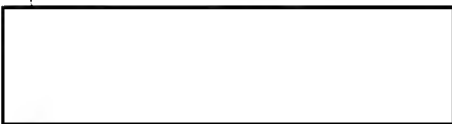
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